

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated the Simpson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

4020 Taylorsville Road
Louisville, Kentucky 40220
Telephone (502) 456-4860
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SIMPSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Simon, Underwood & Associates PSC has completed the Simpson County Fiscal Court audit for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$2,529,563 as of June 30, 2004 in its governmental activities with total net assets of \$2,548,674. The fiscal court had unrestricted net assets of \$1,119,418 in its governmental activities and \$19,111 in its business-type activities.

Debt Obligations:

Total bonded debt principal as of June 30, 2004, was \$11,873,914. Future collections of \$18,022,033 are needed to pay all bonded debt principal and interest.

Financing obligation agreements totaled \$872,331 as of June 30, 2004. Future principal and interest payments of \$1,252,646 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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Simon, Underwood & Associates PSC

Certified Public Accountants and Consultants

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Simpson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Simpson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Schedules are not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Simpson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 1, 2005 on our consideration of Simpson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
July 1, 2005

SIMPSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2004

Fiscal Court Members:

Jim Henderson	County Judge/Executive
Kelly Banton	Magistrate
Larry Randolph	Magistrate
Charles McCutchen, Sr.	Magistrate
Kenneth Utley	Magistrate

Other Elected Officials:

Sid Broderson	County Attorney
Danny Booher	Jailer
Bobby C. Phillips, Jr.	County Clerk
Jan J. Murphree	Circuit Court Clerk
Gene Starks	Sheriff
Pam Womack	Property Valuation Administrator
Thomas Crafton	Coroner

Appointed Personnel:

Julie Freeman	County Treasurer
Nicole Wilson	Finance Officer

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SIMPSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

SIMPSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Simpson County Tourism Commission
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,956,326	\$ 19,111	\$ 1,975,437	\$ 107,453
Receivable				18,872
Total Current Assets	1,956,326	19,111	1,975,437	126,325
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation:				
Construction in Progress	5,464,470		5,464,470	
Land and Land Improvements	1,092,037		1,092,037	74,500
Buildings	5,746,053		5,746,053	151,416
Other Equipment	252,696		252,696	13,111
Vehicles and Equipment	374,680		374,680	9,575
Infrastructure	389,546		389,546	
Total Noncurrent Assets	13,319,482	-	13,319,482	248,602
Total Assets	15,275,808	19,111	15,294,919	374,927
LIABILITIES				
Current Liabilities:				
Financing Obligations Payable	53,752		53,752	
Bonds Payable	425,757		425,757	
Total Current Liabilities	479,509		479,509	-
Noncurrent Liabilities:				
Financing Obligations Payable	818,579		818,579	
Bonds Payable	11,448,157		11,448,157	
Total Noncurrent Liabilities	12,266,736		12,266,736	-
Total Liabilities	12,746,245	-	12,746,245	-
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	573,237		573,237	248,602
Restricted For:				
911 Dispatch Fund	6,221		6,221	
Debt Service	830,687		830,687	
Unrestricted	1,119,418	19,111	1,138,529	126,325
Total net assets	\$ 2,529,563	\$ 19,111	\$ 2,548,674	\$ 374,927

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 552,517	\$ 111,477	\$ 301,491	\$ 155,414
Protection to Persons and Property	2,123,018	1,152,868	187,394	
General Health and Sanitation	247,735			
Social Services	13,660			
Recreation and Culture	337,627			
Roads	320,479		541,190	
Interest on Long-Term Debt	569,152			
Capital Projects	96,774		455,412	
Administration	961,298			
Total Governmental Activities	5,222,260	1,264,345	1,485,487	155,414
Business-type Activities:				
Jail Canteen	201,573	218,272		
Total Business-type Activities	201,573	218,272	0	0
Total Primary Government	\$ 5,423,833	\$ 1,482,617	\$ 1,485,487	\$ 155,414
Component Unit:				
Simpson County Tourism Commission	\$ 104,661	\$	\$	\$
Total Component Units	\$ 104,661	\$ 0	\$ 0	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Interest Expense

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Unit
\$ 15,865	\$	\$ 15,865	\$
(782,756)		(782,756)	
(247,735)		(247,735)	
(13,660)		(13,660)	
(337,627)		(337,627)	
220,711		220,711	
(569,152)		(569,152)	
358,638		358,638	
(961,298)		(961,298)	
(2,317,014)	-	(2,317,014)	-
	16,699	16,699	0
0	16,699	16,699	0
(2,317,014)	16,699	(2,300,315)	
			(104,661)
			(104,661)
913,647		913,647	
145,897		145,897	
140,277		140,277	
1,993,035		1,993,035	99,157
95,681		95,681	
37,969		37,969	499
216,425		216,425	5,955
3,542,931		3,542,931	105,611
1,225,917	16,699	1,242,616	950
1,303,646	2,412	1,306,058	373,977
\$ 2,529,563	\$ 19,111	\$ 2,548,674	\$ 374,927

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

SIMPSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Capital Projects Fund	
ASSETS					
Cash and Cash Equivalents	\$ 782,907	\$ 183,158	\$ 33,421	\$ 830,687	.
Total assets	<u>\$ 782,907</u>	<u>\$ 183,158</u>	<u>\$ 33,421</u>	<u>\$ 830,687</u>	.
FUND BALANCES					
Unreserved:					
General Fund	\$ 782,907	\$	\$	\$	
Special Revenue Fund		183,158	33,421		
Reserved for:					
Capital Projects				830,687	.
Total Fund Balances	<u>\$ 782,907</u>	<u>\$ 183,158</u>	<u>\$ 33,421</u>	<u>\$ 830,687</u>	.

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 126,153</u>	<u>\$ 1,956,326</u>
<u>\$ 126,153</u>	<u>\$ 1,956,326</u>

\$ 126,153	\$ 782,907
	342,732
	<u>830,687</u>
<u>\$ 126,153</u>	<u>\$ 1,956,326</u>

Total Fund Balances	\$ 1,956,326
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	16,029,624
Accumulated Depreciation	(2,710,142)
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	
Financing Obligations	(872,331)
Bonded Debt	<u>(11,873,914)</u>
Net Assets Of Governmental Activities	<u>\$ 2,529,563</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Capital Projects Fund
REVENUES				
Taxes	\$ 2,978,825	\$	\$	\$
In Lieu Tax Payments	27,051			
Excess Fees	95,681			
Licenses and Permits	102,947			
Intergovernmental	212,605	713,414	1,251,269	
Charges for Services	8,530		35,219	
Miscellaneous	166,826	180	49,419	
Interest	2,930	1,865	412	30,130
Total Revenues	<u>3,595,395</u>	<u>715,459</u>	<u>1,336,319</u>	<u>30,130</u>
EXPENDITURES				
General Government	607,646			
Protection to Persons and Property	339,263		1,382,151	
General Health and Sanitation	239,878			
Social Services	13,660			
Recreation and Culture	384,202			
Roads		707,767		
Debt Service	46,839		295,085	
Capital Projects	51,683	28,738		3,113,194
Administration	608,139	68,637	207,542	
Total Expenditures	<u>2,291,310</u>	<u>805,142</u>	<u>1,884,778</u>	<u>3,113,194</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,304,085</u>	<u>(89,683)</u>	<u>(548,459)</u>	<u>(3,083,064)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	28,976		50,000	
Payment to Refunded Bonds Escrow Agent			(164,795)	
Transfers From Other Funds			670,500	54,882
Transfers To Other Funds	(803,300)			(54,769)
Total Other Financing Sources (Uses)	<u>(774,324)</u>	<u>-</u>	<u>555,705</u>	<u>113</u>
Net Change in Fund Balances	529,761	(89,683)	7,246	(3,082,951)
Fund Balances - Beginning (Restated)	253,146	272,841	26,175	3,913,638
Fund Balances - Ending	<u>\$ 782,907</u>	<u>\$ 183,158</u>	<u>\$ 33,421</u>	<u>\$ 830,687</u>

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 186,980	\$ 3,165,805
		27,051
		95,681
		102,947
455,412	125,850	2,758,550
		43,749
		216,425
115	2,517	37,969
<u>455,527</u>	<u>315,347</u>	<u>6,448,177</u>
		607,646
	328,091	2,049,505
	4,764	244,642
		13,660
		384,202
	35,000	742,767
311,118		653,042
120		3,193,735
	76,980	961,298
<u>311,238</u>	<u>444,835</u>	<u>8,850,497</u>
<u>144,289</u>	<u>(129,488)</u>	<u>(2,402,320)</u>
		78,976
(245,000)		(409,795)
54,769	132,800	912,951
<u>(54,882)</u>		<u>(912,951)</u>
<u>(245,113)</u>	<u>132,800</u>	<u>(330,819)</u>
(100,824)	3,312	(2,733,139)
100,824	122,841	4,689,465
<u>\$ 0</u>	<u>\$ 126,153</u>	<u>\$ 1,956,326</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SIMPSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (2,733,139)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	3,889,252
Depreciation Expense	(344,905)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.	
Financing Obligations Proceeds	(78,976)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Bond Principle Payments	23,493
Financing Obligations Payments	60,397
Bond Payments	<u>409,795</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,225,917</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

SIMPSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 19,111
Total Assets	<u>19,111</u>
 Net Assets	
Unrestricted	<u>19,111</u>
Total Net Assets	<u>\$ 19,111</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 218,272
Total Operating Revenues	<u>218,272</u>
Operating Expenses	
Cost of Sales	181,799
Personnel Costs	4,037
Services	14,991
Miscellaneous	746
Total Operating Expenses	<u>201,573</u>
Operating Income (Loss)	<u>16,699</u>
Change In Net Assets	16,699
Total Net Assets - Beginning	2,412
Total Net Assets - Ending	<u><u>\$ 19,111</u></u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

SIMPSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 218,272
Cost of Sales	(181,799)
Services	(14,991)
Personnel Costs	(4,037)
Miscellaneous	(746)
Net Cash Provided By Operating Activities	<u>16,699</u>
Net Increase (Decrease) in Cash and Cash Equivalents	16,699
Cash and Cash Equivalents - July 1, 2003	<u>2,412</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 19,111</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$ 16,699</u>
Total Cash Provided By Operating Activities	<u><u>\$ 16,699</u></u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

SIMPSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 5,065
Total Assets	<u>5,065</u>
Liabilities	
Amounts Held In Custody For Others	<u>5,065</u>
Total Liabilities	<u>5,065</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Simpson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Simpson County Justice Center Corporation

Simpson County Justice Center Corporation (Corporation) is a legally separate entity established for the purpose of construction of the county jail building and the related long-term debt service. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Simpson County Justice Center Corporation. Financial information for the Simpson County Justice Center Corporation is blended within Simpson County's financial statements

Discretely Presented Component Units

The component units' column in the combined financial statements include the data of the following organization. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the Fiscal Court's primary government.

Simpson County Tourism Commission

Simpson County Fiscal Court established the Simpson County Tourism Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Simpson County. The Commission is composed of seven members appointed by the Simpson County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is transient room tax. On March 31, 2002, the Fiscal Court enacted an ordinance imposing a transient room tax.

The Fiscal Court currently collects "3% of the rent for every occupancy of a suite, room or rooms, charged by all persons, companies, corporations or other like similar persons, groups or organizations doing business as motor courts, motels, hotels, inns, or like or similar accommodations businesses." The Commission is to annually submit a request for funds to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Commission is presented discretely.

Audited financial statements for the Simpson County Tourism Commission, a discretely presented component unit, may be requested by contacting the Simpson County Tourism Commission, P.O. Box 737, Franklin, Kentucky, 42135.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Simpson County Elected Officials Not Part Of Simpson County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Simpson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Simpson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Debt Service Fund - The purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Capital Projects Fund – The purpose of this fund is to account for financial resources to be used for major capital acquisitions and construction other than those financed by proprietary and trust funds.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, and 911 Dispatch Fund.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and 911 Dispatch Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

The financial statements present the following major discretely presented component unit: Simpson County Tourism Commission.

This component unit is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	30
Buildings and Building Improvements	\$ 5,000	30
Other Equipment	\$ 5,000	15
Vehicles and Equipment	\$ 5,000	7
Infrastructure	\$ 1,500	20

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Simpson County Water District and Franklin Simpson County Ambulance Taxing District are considered related organizations of Simpson County Fiscal Court.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organization and Jointly Governed Organization (Continued)

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Franklin Simpson Industrial Development Authority, Franklin Simpson Planning and Zoning Commission, and Franklin Simpson Planning and Zoning Adjustment Board are considered jointly governed organizations of the Simpson County Fiscal Court.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Franklin Simpson Parks Board, Inc. and the Simpson County 911 Advisory Board are considered joint ventures of the Simpson County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name, and provided surety bonds which named the primary government or component units as beneficiary/obligee on the bond.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

The county's investments, included in cash and cash equivalents of the Capital Projects Fund, are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Agency Obligations	\$ 830,687	\$	\$	\$ 830,687	\$ 830,687
Totals	\$ 830,687	\$	\$	\$ 830,687	\$ 830,687

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,092,037	\$	\$	\$ 1,092,037
Construction In Progress	2,367,509	3,096,961		5,464,470
Total Capital Assets Not Being Depreciated	3,459,546	3,096,961		6,556,507
Capital Assets, Being Depreciated:				
Buildings	7,814,448	51,683		7,866,131
Other Equipment	467,673	87,127		554,800
Vehicles and Equipment	398,705	252,059		650,764
Infrastructure		401,422		401,422
Total Capital Assets Being Depreciated	8,680,826	792,291		9,473,117
Less Accumulated Depreciation For:				
Buildings	(1,888,580)	(231,499)		(2,120,079)
Other Equipment	(268,021)	(34,082)		(302,103)
Vehicles and Equipment	(208,636)	(67,448)		(276,084)
Infrastructure		(11,876)		(11,876)
Total Accumulated Depreciation	(2,365,237)	(344,905)		(2,710,142)
Total Capital Assets, Being Depreciated, Net	6,315,589	447,386		6,762,975
Governmental Activities Capital Assets, Net	\$ 9,775,135	\$ 3,544,347	\$ 0	\$ 13,319,482

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 25,919
Protection to Persons and Property	266,910
General Health and Sanitation	3,093
Recreation and Culture	5,109
Roads, Including Depreciation of General Infrastructure Assets	43,874
Total Depreciation Expense - Governmental Activities	<u>\$ 344,905</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for discretely presented component units for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 74,500	\$	\$	\$ 74,500
Total Capital Assets Not Being Depreciated	74,500			74,500
Capital Assets, Being Depreciated:				
Buildings	171,415			171,415
Other Equipment	13,922	2,229		16,151
Vehicles and Equipment	16,393			16,393
Total Capital Assets Being Depreciated	201,730	2,229		203,959
Less Accumulated Depreciation For:				
Buildings	(14,285)	(5,714)		(19,999)
Other Equipment	(1,963)	(1,077)		(3,040)
Vehicles and Equipment	(4,476)	(2,342)		(6,818)
Total Accumulated Depreciation	(20,724)	(9,133)		(29,857)
Total Capital Assets, Being Depreciated, Net	181,006	(6,904)		174,102
Capital Assets, Net	\$ 255,506	\$ (6,904)	\$ 0	\$ 248,602

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Simpson County Tourism Commission	\$ 9,133
Total Depreciation Expense - Business Activities	<u>\$ 9,133</u>

Note 4. Long-term Debt - Bonds

A. General Obligation Bonds, Series 2000 - Jail Sinking Fund

Simpson County Fiscal Court issued general obligation bonds, series 2000, dated September 1, 2000, for the purpose of the detention facility renovation and addition. On September 15, 2000, \$4,730,000 of general obligation bonds was issued at various interest rates. Since these general obligation bonds were issued at a discount of \$45,685, net bond proceeds were \$4,684,315. As of June 30, 2004, the principal balance was \$4,440,000. Debt service requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 220,550	155,000
2006	212,550	165,000
2007	204,175	170,000
2008	195,425	180,000
2009	186,175	190,000
2010-2014	774,625	1,100,000
2015-2019	461,264	1,425,000
2020-2022	84,226	1,055,000
Totals	<u>\$ 2,338,990</u>	<u>\$ 4,440,000</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Bonds (Continued)

B. Mortgage Revenue Bonds, Series 2002 – Simpson County Justice Center Corporation

Simpson County Justice Center Corporation, an agency and instrumentality of the Simpson County Fiscal Court created on March 20, 2001, issued Simpson County Justice Center Corporation First Mortgage Revenue Bonds (bonds), Series 2002, on July 1, 2002, for the purpose of acquisition, construction, installation, and equipping of the Simpson County Judicial Center. On July 10, 2002, \$7,460,000 of bonds was issued at various interest rates with accrued interest of \$7,778. Since these bonds were issued at a discount of \$149,199, net bond proceeds were \$7,318,579. The Corporation has entered into an agreement to lease the Simpson County Judicial Center to the Simpson County Fiscal Court for the amount of the bond payments. The Simpson County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Simpson County Judicial Center. \$307,398 of the funds from the bond issuance was deposited to a sinking fund to meet debt service requirements. Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 305,973	255,000
2006	299,470	260,000
2007	292,190	270,000
2008	283,753	280,000
2009	274,303	295,000
2010-2014	1,193,583	1,670,000
2015-2019	805,055	2,100,000
2020-2022	259,203	2,085,000
Totals	<u>\$ 3,713,530</u>	<u>\$ 7,215,000</u>

Note 5. Long-Term Participation Agreement

Revenue Bonds, Series 1987

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$991,772 of revenue bonds at various interest rates, of which the county has agreed to pay \$401,741 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2004 totaled \$218,914. Debt service requirements are:

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-Term Participation Agreement (Continued)

Revenue Bonds, Series 1987 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 15,805	\$ 15,757
2006	13,256	15,040
2007	12,275	16,020
2008	11,230	17,065
2009	10,118	18,177
2010-2014	31,182	110,294
2015	<u>1,734</u>	<u>26,561</u>
Totals	<u>\$ 95,600</u>	<u>\$ 218,914</u>

Note 6. Financing Obligation Agreements

The county has entered into the following capital lease agreements:

A. Fire Truck

On February 25, 2000, the Simpson County Fiscal Court entered into a lease-purchase agreement with Emergency One, Inc. The lease-purchase agreement was for the purchase of a fire truck. The principal was \$150,985 at various interest rates for a period of 10 years, interest and principal paid annually. Principal outstanding as of June 30, 2004, is \$131,318. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 6,500	\$ 14,101
2006	5,802	14,800
2007	5,070	12,598
2008	4,446	13,222
2009	3,792	13,876
2010-2014	<u>7,949</u>	<u>62,721</u>
Totals	<u>\$ 33,559</u>	<u>\$ 131,318</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Financing Obligation Agreements (Continued)

B. Fire Substations

On November 2, 2001, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the construction of fire substations. The principal was \$250,000 at various interest rates for a period of 15 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2004, is \$215,013. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 5,971	\$ 14,651
2006	5,553	15,073
2007	5,121	15,507
2008	4,685	15,953
2009	4,228	16,412
2010-2014	13,856	89,427
2015-2016	1,982	47,990
Totals	<u>\$ 41,396</u>	<u>\$ 215,013</u>

C. Detention Facility Renovation and Addition

On April 18, 2002, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Area Development Districts Financing Trust. The lease-purchase agreement was for the purpose of additional financing of the detention facility renovation and addition. The principal was \$500,000 at variable interest rates for a period of 21 years, interest paid semi-annually and principal paid annually. Principal outstanding as of June 30, 2004, is \$485,000. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 25,363	\$ 15,000
2006	24,785	15,000
2007	24,130	20,000
2008	23,260	20,000
2009	22,360	20,000
2010-2014	97,078	110,000
2015-2019	64,703	140,000
2020-2022	20,648	145,000
Totals	<u>\$ 302,327</u>	<u>\$ 485,000</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Financing Obligation Agreements (Continued)

D. Jail Computer System and Software

On October 6, 2003, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of a new jail computer and software system. The principal was \$50,000 at 2.7 percent interest for a period of five years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2004 was \$41,000. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 1,283	10,000
2006	937	10,000
2007	588	10,000
2008	226	11,000
Totals	<u>\$ 3,034</u>	<u>\$ 41,000</u>

E. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds (Note 4)	\$ 4,590,000	\$	\$ 150,000	\$ 4,440,000	\$ 155,000
Revenue Bonds (Notes 4 and 5)	7,717,202		283,288	7,433,914	270,757
Financing Obligations	<u>853,752</u>	<u>78,976</u>	<u>60,397</u>	<u>872,331</u>	<u>53,752</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 13,160,954</u>	<u>\$ 78,976</u>	<u>\$ 493,685</u>	<u>\$ 12,746,245</u>	<u>\$ 479,509</u>

Note 7. Short-term Debt

In September 2003, the County borrowed \$300,000 in short-term debt from Franklin Bank & Trust Company to meet General Fund obligations until occupational and property taxes were received. As of June 30, 2004, no remaining debt is outstanding.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2004, Simpson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental and business type activities is a decrease of \$3,376,712 and an increase of \$0 respectively, due to capital assets and long-term debt previously not reported. The beginning fund net assets and beginning cash for the General Fund and Jail Fund have been restated by \$8,703 and \$404, respectively, for receipts previously omitted in error.

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SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,622,200	\$ 2,646,067	\$ 2,978,825	\$ 332,758
In Lieu Tax Payments	25,750	25,750	27,051	1,301
Excess Fees	91,170	91,170	95,681	4,511
Licenses and Permits	102,200	102,200	102,947	747
Intergovernmental Revenue	372,175	496,326	212,605	(283,721)
Charges for Services	5,000	5,000	8,530	3,530
Miscellaneous	96,450	120,450	166,826	46,376
Interest	11,500	11,500	2,930	(8,570)
Total Revenues	3,326,445	3,498,463	3,595,395	96,932
EXPENDITURES				
General Government	625,465	671,805	607,646	64,159
Protection to Persons and Property	242,300	365,453	323,746	41,707
General Health and Sanitation	230,800	249,300	239,878	9,422
Social Services	13,500	24,500	13,660	10,840
Recreation and Culture	383,100	386,634	384,202	2,432
Debt Service	33,200	336,770	333,380	3,390
Capital Projects	290,000	277,000	51,683	225,317
Administration	653,557	667,478	608,139	59,339
Total Expenditures	2,471,922	2,978,940	2,562,334	416,606
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	854,523	519,523	1,033,061	513,538
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		300,000	300,000	-
Transfers From Other Funds	45,877	45,877		(45,877)
Transfers To Other Funds	(900,400)	(900,400)	(803,300)	97,100
Total Other Financing Sources (Uses)	(854,523)	(554,523)	(503,300)	51,223
Net Changes in Fund Balances	-	(35,000)	529,761	564,761
Fund Balances - Beginning		35,000	253,146	218,146
Fund Balances - Ending	\$ 0	\$ 0	\$ 782,907	\$ 782,907

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 698,850	\$ 817,850	\$ 713,414	\$ (104,436)
Miscellaneous	5,000	5,000	180	(4,820)
Interest	3,200	3,200	1,865	(1,335)
Total Revenues	707,050	826,050	715,459	(110,591)
EXPENDITURES				
Roads	613,800	727,800	707,767	20,033
Capital Projects	25,000	115,000	28,738	86,262
Administration	72,373	72,373	68,637	3,736
Total Expenditures	711,173	915,173	805,142	110,031
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	(4,123)	(89,123)	(89,683)	(560)
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	50,000	135,000	-	(135,000)
Transfers To Other Funds	(45,877)	(45,877)		45,877
Total Other Financing Sources (Uses)	4,123	89,123	-	(89,123)
Net Changes in Fund Balances	-	-	(89,683)	(89,683)
Fund Balances - Beginning			272,841	272,841
Fund Balances - Ending	\$ 0	\$ 0	\$ 183,158	\$ 183,158

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 815,050	\$ 1,128,050	\$ 1,251,269	\$ 123,219
Charges for Services	36,000	36,000	35,219	(781)
Miscellaneous	63,564	63,564	49,419	(14,145)
Interest	250	250	412	162
Total Revenues	914,864	1,227,864	1,336,319	108,455
EXPENDITURES				
Protection to Persons and Property	955,142	1,382,570	1,382,151	419
Debt Service	492,082	459,880	459,880	(0)
Administration	244,940	212,714	207,542	5,172
Total Expenditures	1,692,164	2,055,164	2,049,573	5,591
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(777,300)	(827,300)	(713,254)	114,046
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			50,000	50,000
Transfers From Other Funds	777,300	827,300	670,500	(156,800)
Transfers To Other Funds				
Total Other Financing Sources (Uses)	777,300	827,300	720,500	(106,800)
Net Changes in Fund Balances	-	-	7,246	7,246
Fund Balances - Beginning			26,175	26,175
Fund Balances - Ending	\$ 0	\$ 0	\$ 33,421	\$ 33,421

SIMPSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Debt Service Fund to be budgeted. Bond indentures and other relevant contractual provisions require annual payments to these funds and these transfers are budgeted in the governmental funds.

Note 2. Reconciliation of Jail Fund

Total Expenditures - Budgetary Basis	\$ 2,049,573
Less: payments to refunded bond escrow agent	<u>(164,795)</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,884,778</u></u>
Other Financing Sources (Uses)	
- Budgetary Basis	\$ 720,500
Less: payments to refunded bond escrow agent	<u>(164,795)</u>
Total Other Financing Sources (Uses)	
- Modified Cash Basis	<u><u>\$ 555,705</u></u>

SIMPSON COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2004

SIMPSON COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	911 Dispatch Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 119,932	\$ 6,221	\$ 126,153
Total assets	<u>\$ 119,932</u>	<u>\$ 6,221</u>	<u>\$ 126,153</u>
FUND BALANCES			
Unreserved:			
Special Revenue Fund	<u>\$ 119,932</u>	<u>\$ 6,221</u>	<u>\$ 126,153</u>
Total Fund Balances	<u>\$ 119,932</u>	<u>\$ 6,221</u>	<u>\$ 126,153</u>

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SIMPSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

SIMPSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	911 Dispatch Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$ 186,980	\$ 186,980
Intergovernmental	75,078	50,772	125,850
Interest	2,517		2,517
Total Revenues	<u>77,595</u>	<u>237,752</u>	<u>315,347</u>
EXPENDITURES			
Protection to Persons and Property	29,056	299,035	328,091
General Health and Sanitation	4,764		4,764
Roads	35,000		35,000
Administration		76,980	76,980
Total Expenditures	<u>68,820</u>	<u>376,015</u>	<u>444,835</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>8,775</u>	<u>(138,263)</u>	<u>(129,488)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		132,800	132,800
Total Other Financing Sources (Uses)		<u>132,800</u>	<u>132,800</u>
Net Change in Fund Balances	8,775	(5,463)	3,312
Fund Balances - Beginning (Restated)	111,157	11,684	122,841
Fund Balances - Ending	<u>\$ 119,932</u>	<u>\$ 6,221</u>	<u>\$ 126,153</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Simon, Underwood & Associates PSC

Certified Public Accountants and Consultants

4020 Taylorsville Road
Louisville, KY 40220

Telephone: 502-456-4860

Facsimile: 502-456-4829

Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 1, 2005. Simpson County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Simpson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Simpson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Simpson County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The script is cursive and fluid.

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
July 1, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

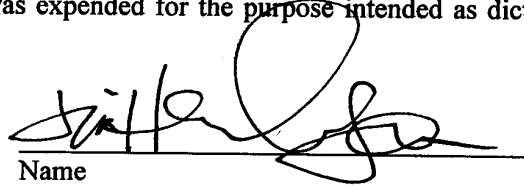
SIMPSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
SIMPSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Simpson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer